Two local S&Ls offer long-term fixed-rate loans — cautiously

By Grayden Jones
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Jeff Schill was tired of renting half of a cramped, noisy duplex. So last summer, the medical technologist began looking for a house to buy — a place where he could enjoy his privacy and mow his own front lawn But his dream was postponed by high and fluctuating interest rates

His local savings and loan was offering adjustable rate mortgages The interest rate on the mortgage varied as the S&L's cost of money changed.

"Interest rates were at 16 percent, and you couldn't get a home, and even if you could, you still couldn't get any financing," he says

That bothered Schill He, like many other potential home buyers, longed for his local S&L to bring back the traditional 30-year, fixed-rate mortgage — something the institutions said they would never do

Now they have done it Two local S&Ls are offering 30-year, fixed-rate home mortgages, albeit cautiously

Until 1979, the 30-year, fixed-rate mortgages had kept the S&Ls prosperous They lent at nearly two percentage points higher than the interest they paid on passbook savings

Then inflation spurred a rapid rise in interest rates, leaving the institutions stuck with the long-term low-interest loans In addition, customers were withdrawing their deposits to seek the high returns of money market funds In order to retain deposits, the S&Ls had to offer higher rates on deposits The rates paid on deposits rose faster than the rate earned on the mortgages Some institutions did not survive

Survivors say that while long-term fixed-rate mortgages have returned, the traditional method of financing them is defunct Bill Witting, executive vice president of Mid-Missouri Savings and Loan, says that to continue traditional financing would be "akin to suicide"

Yet, Witting heads one of the local institutions re-introducing the long-term, fixed-rate mortgates But this time the S&Ls are playing the broker's game They are selling the loans on secondary markets

The secondary market has been available to the thrifts for at least 13 years, but not until recently has its appeal become apparent. With the secondary market, the S&L can sign the homebuyer to a 30-year, fixed-rate loan and then pool it with other loans for sale to long-term lenders, such as the Federal Home Mortgage Corporation, known as Freddie Mac Freddie Mac turns the pool into a security called a participation certificate, which eventually is sold through a dealer on Wall Street.

Depending on whether it is conventional, FHA or VA, the S&L retains anywhere from zero to 20 percent interest in the loan It continues to serve the borrower, however, and earns ¼ percent interest as its fee

Probably 95 percent of all S&Ls are offering some type of long-term loans, Witting says, although Mid-Missouri, 507 Business Loop 70 W., and Farm and Home Savings and Loan, 725 E Broadway, are the only local thrifts currently offering the 30-year plans

The reasons for returning to the long-term loans are many, but none so important as producing income

During the last 20 years S&Ls typically kept 98 percent of their investments in home loans, Ken Engelbrecht said The Farm and Home loan officer explained that the thrifts have had to quickly realign their investments while meeting the influx of cash produced by the introduction of S&L money market accounts

"Cash surplus is dead weight," he said "So the day-to-day operations facilitate and require the buying and selling of loans"

Robert Cushman of the Federal Home Mortgage Corporation said this brokerage-like business will be "about the only way money will be available to the savings and loan because it provides an avenue of investment (for secondary buyers)." S&Ls are operating on one-day money, he said They can turn around and sell the mortgage to the secondary market for cash to lend out or for securities to resell

Moreover, the secondary market enables the S&Ls to keep their position as the chief lender of long-term loans in the fiercely competitive financing market

"For them to forego it (the 30-year, fixed-rate mortgage) entirely is essentially backing out from their portion of the turf," said Don Schilling, University professor of economics For this reason, Schilling predicted that more S&Ls will return to the 30-year, fixed-rate mortgage

Some industry experts warn, however, that the S&Ls may be too quick to build up their capital while ignoring obvious pitfalls

"Any S&L that thinks it will pass on all the risk is kidding itself," Schilling said He noted that if a borrower defaults on his loan, the S&L is stuck with a piece of real estate

Furthermore, some institutions may be extending their risk by retaining a high percentage of the loan Thomas Hefter, president of the Savings Institution Marketing Society of America, says 30-year, fixed-rate lending is a tempting and bad practice

"Unless those loans are being made for immediate resale in the secondary market. . we strongly urge Savings and Loans not to become involved," he said

Farm and Home's Columbia branch, which has negotiated $500,000 in 30-year, fixed-rate loans since January, does not sell the loans immediately, Engelbrecht says, although their intention is to eventually enter the secondary market

But the market for home loans is ripe now Columbia Realtors say that despite the uncertainty of interest rates, home buyers of all ages and income status prefer fixed-rate mortgages

It is unlikely that the S&Ls will let those like Jeff Schill, encouraged by lower interest rates and the availability of their old favorite 30-year, fixed-rate home loan, go elsewhere for their mortgage

"I know where I stand with the loan," Schill says. "I like knowing what the payments are from month to month"